

Message Text

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INFO ALL EC CAPITALS
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SHAPE FOR POLAD

E.O. 11652: GDS
TAGS: AMGT, PFOR, EEC
SUBJECT: PARM - ANNUAL POLICY AND RESOURCE ASSESSMENT - PART I.

REF: A) STATE 38356, B) STATE 38338, C) STATE 41169, D) CERP 0001

PART 1 POLICY ASSESSMENT (US INTERESTS AND OBJECTIVES)

THIS PART IS SUBMITTED IN TWO SECTIONS: (1) US INTERESTS
AND OBJECTIVES, AND (2) ISSUES (SEPTTEL).

A. US INTERESTS

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THE PRINCIPAL LONG-TERM US INTERESTS IN THE EUROPEAN
COMMUNITY DERIVE FROM THE FACT THAT THE COMMUNITY, BOTH AS
AN ENTITY DISTINCT FROM ITS MEMBER STATES AND IN ITS ROLE
AS A FRAMEWORK WITHIN WHICH THE MEMBER STATES SEEK TO DEVELOP
OR RECONCILE NATIONAL POLICIES, IS A SIGNIFICANT ACTOR ON
THE INTERNATIONAL ECONOMIC, AND INCREASINGLY, POLITICAL
STAGE. IN VIRTUALLY ALL THE AREAS IDENTIFIED IN PARA 7 OF

THE S/P TRENDS PROJECTION (STATE 38338), THE COMMUNITY AS SUCH EITHER PLAYS A KEY ROLE, OR WILL BE INFLUENTIAL IN THE DEFINITION OF THE ROLES PLAYED BY THE MEMBER STATES. OUR INTEREST, BRIEFLY STATED, IS THAT THE COMMUNITY, BOTH IN ITS INSTITUTIONAL MANIFESTATIONS AND AS A GROUP OF STATES, ACTS IN WAYS WHICH PROMOTE THE ACHIEVEMENT OF US OBJECTIVES AND DOES NOT, TO THE EXTENT WE CAN INFLUENCE IT, ACT IN WAYS TO FRUSTRATE REALIZATION OF THOSE GOALS.

THE MAIN RECOMMENDATION FOR US POLICY WHICH I HAVE TO MAKE IN THIS ASSESSMENT IS THAT WE EXPLICITLY RE-ACKNOWLEDGE THE FACT THAT THE COMMUNITY, WITH ALL ITS IMPERFECTIONS, IS IMPORTANT, AND IN SOME AREAS CRUCIAL, TO THE ACHIEVEMENT OF ALL MAJOR US INTERNATIONAL ECONOMIC AND MANY INTERNATIONAL POLITICAL OBJECTIVES; THAT ITS ROLE EXTENDS FAR BEYOND ITS BASIC POSITION IN DEFINING AND IMPLEMENTING TRADE POLICY; AND THAT WE MUST CONSCIENTIOUSLY FACTOR IT INTO OUR BROADER INTERNATIONAL STRATEGY, BOTH TO ASSURE THE SUCCESS OF THAT STRATEGY AS WELL AS TO AVOID FAILURE BECAUSE OF OVERDEPENDENCE ON A LIMITED NUMBER OF KEY PLAYERS.

PRESIDENT CARTER AND THE NEW ADMINISTRATION HAVE CLEARLY REAFFIRMED AMERICAN SUPPORT FOR EUROPEAN INTEGRATION, AND THEIR ACKNOWLEDGEMENT OF THE IMPORTANCE OF THE EUROPEAN COMMUNITY SHORTLY AFTER TAKING OFFICE HAS HAD A HEALTHY EFFECT ON OUR RELATIONS WITH THE LEADERS AND ELITES OF THE MEMBER STATES. AS PRESIDENT HAS NOTED, WE CAN ONLY WORK WITH AND THROUGH THE COMMUNITY INSTITUTIONS TO THE EXTENT EUROPEANS WISH TO MAKE THEM THE CHANNELS FOR ACHIEVING THEIR ECONOMIC

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AND POLITICAL OBJECTIVES. WHILE THE FITS-AND-STARTS NATURE OF THE INTEGRATION PROCESS IS DISTRACTING TO OBSERVERS OF COMMUNITY PROGRESS, THE FACT IS THAT THE POTENTIAL FOR EXPANDING OUR RELATIONSHIP EXISTS IF WE CHOOSE TO USE IT MORE ACTIVELY.

THE COMMISSION, THE EUROPEAN COURT, AND IN THE FUTURE, A DIRECTLY-ELECTED EUROPEAN PARLIAMENT, ARE ELEMENTS WHICH SUPPLEMENT THE NATIONAL GOVERNMENTS OF THE MEMBER STATES. FURTHER, THE MEMBER STATES ARE INEXTRICABLY ENGAGED IN EC PROCESSES. IN MANY RESPECTS, THEY DEPEND ON THE EC MECHANISMS TO EXPRESS AND ACHIEVE THEIR NATIONAL PURPOSES. THE EUROPEANS WORKING IN COMMUNITY INSTITUTIONS HAVE FEWER PAROCHIAL INTERESTS THAN THOSE IN NATIONAL GOVERNMENTS, AND, FOR THE MOST PART, THEY HAVE AN INTEREST IN BRINGING THE UNIFIED STRENGTH OF EUROPE TO WORK WITH US IN ATTACKING JOINTLY THE URGENT PROBLEMS ALL THE INDUSTRIALIZED COUNTRIES FACE.

THE EVER-DENSER NEXUS OF INTERNATIONAL ECONOMIC RELATIONS

ALSO ARGUES FOR CLOSER COOPERATION WITH THE EUROPEAN COMMUNITY. WITHIN THE INDUSTRIALIZED GROUP FEW TRADE, DEVELOPMENT, MACRO-ECONOMIC, OR MONETARY POLICY PROBLEMS ARE BILATERALLY SELF-CONTAINED. WE MUST AT A MINIMUM SEEK TO HARMONIZE POLICIES WITH THE COMMUNITY AND JAPAN. THE LONDON SUMMIT RECOGNIZES THIS REALITY AND THE FACT IS THAT COMMISSION PRESIDENT JENKINS WILL BE THERE, TO SOME EXTENT, BECAUSE OF OUR POSITIVE ATTITUDE TOWARD HIS PRESENCE. THIS AND OTHER CONCRETE SIGNS OF AMERICAN ENCOURAGEMENT TO EUROPEAN UNITY WHICH WE SHOULD GIVE IN THE FUTURE WILL INCREASE THE LIKELIHOOD OF POSITIVE, MUTUALLY HELPFUL ATLANTIC OR TRILATERAL EFFORTS.

IN THE LARGER WORLD, THE UNITED STATES USUALLY CANNOT HAVE ITS WAY ON MOST OF OUR PRIORITY ISSUES IF WE ARE OPPOSED BY THE COMMUNITY. WHENEVER WE WORK TOWARD A COMMON OR COORDINATED POSITION, WE WILL GET MOST OF WHAT WE WANT.

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WE HAVE ORGANIZED OUR LOOK AHEAD AROUND AN EXAMINATION OF OUR SPECIFIC INTERESTS IN FOUR MAIN AREAS: MANAGING BILATERAL TRADE PROBLEMS; COORDINATION ON MULTILATERAL ISSUES; FOREIGN POLICY COORDINATION THROUGH THE NINE'S POLITICAL COOPERATION FRAMEWORK; AND THE EC'S ROLE IN PROMOTING POLITICAL STABILITY, ECONOMIC DEVELOPMENT AND SECURITY OBJECTIVES BOTH IN THE WESTERN EUROPEAN/MEDITERRANEAN REGION AND WITH AND AMONG THE AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES CURRENTLY (OR PROSPECTIVELY) ASSOCIATED WITH IT THROUGH THE LOME CONVENTION.

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B. OVERVIEW

EC ACTIONS WITHIN THESE AREAS OF US INTEREST WILL BE INFLUENCED BY MANY FACTORS, BOTH INTERNAL AND EXTERNAL TO THE COMMUNITY. THE KEY ELEMENTS ARE LIKELY TO BE: THE STATE OF THE EUROPEAN ECONOMIES; THE PROSPECTS FOR ENLARGEMENT; INTERNAL POLITICAL DEVELOPMENTS (INCLUDING ESPECIALLY THE POSSIBLE ASSOCIATION OF COMMUNIST PARTIES IN THE GOVERNMENTS OF FRANCE AND ITALY); AND NOT LEAST, THE CONDUCT OF THE NEW US ADMINISTRATION, NOT ONLY IN ITS RELATIONS WITH WESTERN EUROPE BUT ALSO IN ITS APPROACH TO THE HOST OF NORTH-SOUTH ISSUES AND IN ITS DEALINGS WITH THE USSR AND EASTERN EUROPE. ALL OF THESE, IN TURN, WILL IMPACT ON THE EVOLUTION OF THE EC
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INSTITUTIONS AND THE PROCESS OF EUROPEAN UNIFICATION.

1.) STATE OF THE EUROPEAN ECONOMIES

UNCERTAINTY ABOUT ECONOMIC CONDITIONS IS LIKELY TO BE A PERSISTENT FACTOR IN THE EC OVER THE NEXT FEW YEARS. THE MEMBER STATES' ECONOMIES CURRENTLY PRESENT A CONTRADICTORY PICTURE OF LIMITED RECOVERY AND STAGNATION, PERSISTENT UNEMPLOYMENT, AND LINGERING INFLATION. THE FACT OF THE MATTER IS THAT THE COMMUNITY HAS BEEN AND REMAINS UNDER INCREASING STRAIN DUE TO MONETARY AND ECONOMIC INSTABILITY IN KEY EC COUNTRIES (ITALY AND UK), PLUS THE SLUGGISHNESS OF OTHER MEMBER STATES. THE SWING TOWARDS THE LEFT IN FRANCE WILL PROBABLY INCREASE ECONOMIC INSTABILITY IN THAT COUNTRY, AT LEAST IN THE SHORT TERM.

THOSE WHO ARE WEAKEST CONTINUE TO LOOK TO THE GERMANS (AND BEYOND TO THE US AND JAPAN) FOR THE STIMULUS WHICH COULD SPUR THEIR OWN RECOVERY, WHILE THEY STRUGGLE, IN THE FACE OF MAJOR POLITICAL DIFFICULTIES, TO MAINTAIN NECESSARY STABILIZATION

PROGRAMS. BEYOND THIS, EXPENSIVE PROGRAMS OF STRUCTURAL CHANGE MUST BE UNDERTAKEN IF ECONOMIC CONVERGENCE IS EVER TO BECOME REALITY RATHER THAN SLOGAN. THE GERMANS, WHO WOULD NEED TO BEAR THE LARGEST BURDEN, ARE RELUCTANT TO COMMIT TO THESE EFFORTS THE SUBSTANTIAL RESOURCES REQUIRED BECAUSE OF FEARS OF INFLATION AND BUDGETARY PROBLEMS. WE ARE CONCERNED THAT THE PERSISTENCE OF THESE INSTABILITIES AND UNCERTAINTIES COULD LEAD TO THE EC BECOMING A LESS STEADY ECONOMIC PARTNER, LESS CAPABLE OF PLAYING A LEADERSHIP ROLE IN SOLVING GLOBAL ECONOMIC PROBLEMS, AND AN EASIER PREY TO PROTECTIONIST PRESSURES.

2.) PROSPECTS FOR EC ENLARGEMENT

A NEW ROUND OF COMMUNITY ENLARGEMENT IS ALREADY UNDER WAY. FULL MEMBERSHIP FOR GREECE BY 1980 IS CONTEMPLATED; THE PORTUGUESE APPLICATION IS IN THE MILL AND SPAIN
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WILL SOON FOLLOW SUIT -- WITH FULL MEMBERSHIP PERHAPS MATERIAL-IZING SOMETIME IN THE DECADE OF 1980'S. EXPANSION OF THE COMMUNITY FRONTIERS ALONG THE FLANKS OF THE NORTHERN MEDITERRANEAN SHOULD INTRODUCE A NEW ELEMENT OF POLITICAL STABILITY AND SECURITY

IN THESE VOLATILE AREAS. HOWEVER THE CONSEQUENCES FOR THE COMMUNITY ITSELF IN TERMS OF DECISION-MAKING, ECONOMIC AND SOCIAL COHESION, AND INTERNAL PROGRESS COULD BE MORE NEGATIVE. IF EXPANSION IS ACCOMPANIED BY PERSISTING FINANCIAL AND ECONOMIC INSTABILITY AMONG THE PRESENT NINE, IT IS POSSIBLE THAT THERE MAY BE NEW FISSURES ALONG THE LINES OF THE RICHER AND POORER, THE MEDITERRANEANS AND THE NORTHERNERS, THE LARGE AND THE SMALL, LEFT AND RIGHT, ETC. WHILE WE CAN BY NO MEANS BE CERTAIN OF THIS "WORST CASE" SCENARIO AS THE PRICE OF ENLARGEMENT, A DRASTIC LOSS OF EC COHESION COULD LEAD TO A FAR LESS OUTWARD LOOKING COMMUNITY THAN WE HAVE AT THE MOMENT, AND ONE FAR LESS ABLE TO REACH A CONSENSUS AND PLAY A CONSTRUCTIVE ROLE IN INTERNATIONAL ECONOMIC AFFAIRS. WHILE NONE OF THESE PRESSURES WILL BE FELT DIRECTLY BEFORE THE 1980'S, THE FACT IS THAT CONCERN ABOUT THEM IS ALREADY BEGINNING TO CONDITION THINKING IN EUROPE ABOUT THE IMMEDIATE FUTURE AS WELL, AND WILL INCREASINGLY PREOCCUPY COMMUNITY ATTENTION AS THE ENLARGEMENT NEGOTIATIONS PROCEED.

3.) INTERNAL POLITICAL DEVELOPMENTS

ONE MUST BE IMPRESSED WITH THE FRAGILITY OF THE DOMESTIC POLITICAL BASE UPON WHICH THE MAJORITY OF EC GOVERNMENTS REST TODAY. IN ADDITION TO EARLY ELECTIONS IN BELGIUM AND THE NETHERLANDS, ONE CANNOT ENTERTAIN GREAT CONFIDENCE ABOUT THE LONGEVITY OF CURRENT REGIMES IN ITALY, THE UK, AND FRANCE, AND EVEN SCHMIDT'S DOMESTIC MARGIN OF MANEUVER IS

CIRCUMSCRIBED.

LOOKING AHEAD, THE DOMINANT POLITICAL ISSUES IN THE
COMMUNITY ALMOST CERTAINLY WILL BE THE 1978 FRENCH PARLIAMENTARY
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ELECTIONS AND THE PROSPECTS FOR COMMUNIST PARTICIPATION IN
FRENCH OR ITALIAN GOVERNMENTS DURING THE MEDIUM-TERM FUTURE.
WHAT WE WOULD LIKE TO STRESS HERE IS THAT, IN ADDITION TO THE
SECURITY PROBLEMS SUCH AN EVENTUALITY WOULD POSE FOR NATO,
THE PARTICIPATION OF COMMUNIST PARTIES IN EC MEMBER STATE
COALITIONS WOULD HAVE IMPORTANT IMPLICATIONS FOR THE COMMUNITY
AS WELL. THE DANGER OF
MASSIVE CAPITAL FLIGHT INDUCED BY POLITICAL UNCERTAINTY AND
THE PROSPECT OF HIGHLY DIRIGISTE ECONOMIC POLICIES ARE REAL.
WHILE ONE OF THESE PARTIES -- ITALY'S PCI - COMES ON WITH A
STRONG PRO-EUROPEAN AND RELATIVELY MODERATE ECONOMIC LINE,
WE FORESEE THAT IN THE CASE OF BOTH ITALY AND FRANCE,
DOMESTIC ECONOMIC MEASURES ADVOCATED BY THE COMMUNISTS IN
COALITION GOVERNMENTS COULD INVOLVE RESTRAINT OF INTERNAL
TRADE AND PAYMENTS WITHIN THE EC. THIS IN TURN COULD LEAD
TO THE SHREDDING OF THE EC'S MOST BASIC ACCOMPLISHMENT -- THE
CUSTOMS UNION -- AND ALSO PRODUCE AN UNRAVELLING OF COMMON
POLICY IN OTHER SIGNIFICANT FIELDS (INCLUDING EXTERNAL TRADE
AND INVESTMENT POLICIES). WE WOULD ALSO ANTICIPATE REPER-
CUSSIONS ON EC-NINE POLITICAL COOPERATION (SEE ISSUES SEPTTEL)
WHICH COULD SIGNIFICANTLY DILUTE ITS EFFECTIVENESS.

THE CONCLUSION WE DRAW IS THAT, IN ADDITION TO ECONOMIC
UNCERTAINTIES, DOMESTIC POLITICS WILL PLAY A ROLE IN
CIRCUMSCRIBING EC MEMBER GOVERNMENTS' APPROACHES TO MAJOR NEW
INITIATIVES TOWARD CLOSER INTEGRATION.

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4.) THE CARTER ADMINISTRATION

SEVERAL MONTHS AGO, EC COMMISSION PRESIDENT JENKINS COMMENTED THAT IF THE US LOOKS FOR ONE EUROPEAN VOICE AND ONE EUROPEAN WILL, IT WILL BE MORE LIKELY TO FIND THEM THAN IF IT PREFERS TO LOOK FOR NINE EUROPEAN VOICES AND NINE EUROPEAN WILLS. WE BELIEVE THAT THE CARTER ADMINISTRATION ALREADY HAD HAD AND CAN CONTINUE TO HAVE AN IMPORTANT IMPACT ON THE COMMUNITY, TO A CERTAIN EXTENT OFFSETTING THE FACTORS TENDING TOWARD IMMOBILISM CITED ABOVE, BY ACCEPTING AND ENCOURAGING A COMMON APPROACH BY THE NINE TOWARD SOLVING GLOBAL PROBLEMS AND BY CONTINUING TO EMPHASIZE THE IMPORTANCE OF CONSULTATIONS WITH THE EC AS A GROUP AS WELL AS WITH KEY
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MEMBER STATES. I BELIEVE THAT THE NINE ALREADY APPRECIATE THE FACT THAT A PAGE HAS BEEN TURNED IN US/EUROPEAN RELATIONS, THAT THEY CONFRONT AN ADMINISTRATION BASICALLY SYMPATHETIC TO THEIR COMMON ENDEAVORS. WE WERE OFF TO A GOOD START WITH THE MONDALE VISIT, WHOSE SIGNIFICANCE WAS WIDELY APPRECIATED IN BRUSSELS. THE GOING MAY WELL GET ROUGHER WHEN WE GET DOWN TO KNOTTY ISSUES, SUCH AS NUCLEAR PROLIFERATION AND SPECIFIC TRADE PROBLEMS (SEE SEPTTEL). WHILE WE MUST OF COURSE PURSUE OUR OWN OBJECTIVES AND PRIORITIES, HOW WE PURSUE THEM CAN HAVE AN INFLUENCE ON THE COMMUNITY. IF WE SEEK TO ENGAGE THE COMMUNITY IN THE REALIZATION OF OUR PROGRAMS TO THE MAXIMUM EXTENT POSSIBLE, WE MAY NOT ONLY BE ABLE TO GET SOME HELP, BUT ALSO CONTRIBUTE SOMETHING TO THE COMMUNITY'S COHESION IN PURSUING A BROAD RANGE OF MATTERS.

5.) IMPACT ON EUROPEAN INSTITUTIONS AND INTEGRATION

IF THE FACTORS NOTED ABOVE, ON BALANCE, SUGGEST PESSIMISM ABOUT THE NEAR-TERM OUTLOOK FOR FURTHER PROGRESS TOWARDS INTEGRATION AND THE PROSPECTS FOR A STRONG EUROPEAN LEADERSHIP ROLE IN WORLD ECONOMIC PROBLEMS, THERE ARE ALSO OPPORTUNITIES WHICH CAN COUNTERBALANCE THIS TREND. AS THE MEMBER STATES BECOME MORE AND MORE PREOCCUPIED WITH DOMESTIC POLITICAL AND ECONOMIC CONSTRAINTS, THE NEED FOR A CLEAR VOICE TO ARTICULATE THE EUROPEAN INTEREST IN REGIONAL AND GLOBAL ISSUES OF IMPORTANCE BOTH TO EUROPE AND THE US INTENSIFIES.

THE NEW EC COMMISSION AND, LATER IN 1978, A DIRECTLY ELECTED EUROPEAN PARLIAMENT, CAN HELP FILL PART OF THAT NEED. WHILE DOMESTIC PROBLEMS IN THE MEMBER STATES WILL DOUBTLESS COMPLICATE THEIR JOBS SUBSTANTIALLY, THESE INSTITUTIONS PROVIDE CONTINUITY AND A CERTAIN ELAN SADLY LACKING ELSEWHERE; MOREOVER THEY ARE DEDICATED TO THE PURSUIT OF AN OUTWARD LOOKING, LIBERAL AND RESPONSIBLE EUROPEAN ROLE IN WORLD AFFAIRS, THEREBY PROVIDING US WITH A HANDLE WITH WHICH TO ASSURE THAT AMERICAN INFLUENCE WILL BE FELT IF WE USE IT EFFECTIVELY AND WISELY.

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AT A TIME WHEN THE INTERNAL STRAINS ON EUROPE'S COHESION MAY BE APPROACHING THEIR APOGEE, WE CANNOT AFFORD A POLICY OF INDIFFERENCE OR AFTER-THOUGHT (MUCH LESS BARELY DISGUISED HOSTILITY). HOW WE IMPLEMENT OUR POLICIES VIS-A-VIS EUROPE CAN BE ALMOST AS IMPORTANT AS THEIR CONTENT, AND BOTH WILL BE FAR MORE IMPORTANT THAN THE TRADITIONAL RHETORIC OF SUPPORT FOR UNIFICATION (THOUGH, OF COURSE, THAT TOO SHOULD NOT BE DISCOUNTED).

AGAINST THIS BACKGROUND, THE FOLLOWING SECTION REVIEWS BRIEFLY WHAT WE CONSIDER TO BE US OBJECTIVES IN ITS DEALINGS WITH THE COMMUNITY OVER THE NEXT FEW YEARS. A SEPARATE CABLE WILL OUTLINE THE PRINCIPAL ISSUES WE EXPECT TO FACE DURING THIS PERIOD, IDENTIFY AREAS WHERE OPPORTUNITIES FOR NEW INITIATIVES MAY EXIST, AND OUR RECOMMENDATIONS FOR ACTION.

C. US OBJECTIVES

1.) BILATERAL ECONOMIC RELATIONS

OUR OBJECTIVE IS TO ASSURE THAT THE EC MAINTAINS AN OPEN MARKET AND HOSPITABLE ENVIRONMENT FOR ABOUT \$25 BILLION PER YEAR OF US EXPORTS AND ABOUT \$40 BILLION IN DIRECT INVESTMENTS, AND TO WORK CLOSELY WITH THE COMMUNITY TO MANAGE OUR BILATERAL PROBLEMS SO AS TO AVOID AN ESCALATION OF RESTRICTIVE ACTIONS DURING A PERIOD OF HIGH UNEMPLOYMENT AND LIMITED ECONOMIC RECOVERY.

BILATERAL ECONOMIC RELATIONS, PRIMARILY IN THE TRADE

FIELD, WILL CONTINUE TO POSE DIFFICULT PROBLEMS IN OUR RELATIONS WITH THE EC. IN THE PAST YEAR THESE HAVE FOCUSSED ON EUROPEAN CONCERN ABOUT PROTECTIONISM IN THE US AND SPECIFICALLY ABOUT COMPLAINTS FILED IN THE US UNDER THE TRADE ACT CHARGING UNFAIR TRADE PRACTICES BY THE EC. US CONCERNS HAVE FOCUSSED ON THREATS TO OUR AGRICULTURAL EXPORTS ARISING FROM EC PREFERENCE ARRANGEMENTS IN THE MEDITERRANEAN OR MEASURES TO PROTECT HIGH-COST

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EUROPEAN AGRICULTURE AND TO DISPOSE OF DAIRY SURPLUSES AT THE EXPENSE OF US FARM EXPORTS. WE HAVE BEEN REASONABLY SUCCESSFUL IN MANAGING AND RESOLVING THESE DISPUTES, BUT THERE ARE CONTINUING PROBLEMS, PARTICULARLY IN THE AGRICULTURAL FIELD, AND THEY WILL REQUIRE CAREFUL HANDLING AND VIGILANCE, AS WELL AS A CLEAR ORDERING OF PRIORITIES TO SEPARATE OUT WHAT IS TRULY OF IMPORTANCE TO US AND TO MINIMIZE STATIC ON PERIPHERAL ISSUES.

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A.) MULTILATERAL ISSUES

OUR OBJECTIVE IS TO WORK CLOSELY WITH THE EC IN ITS ROLE AS VEHICLE FOR DEVELOPING OR COORDINATING THE VIEWS OF ITS MEMBER STATES OVER THE VAST RANGE OF INTERNATIONAL ECONOMIC ISSUES; TO MOVE CIEC AND THE MTN TO A SUCCESSFUL CONCLUSION, AND TO ASSURE AS FAR AS POSSIBLE THAT THE US AND EC MAINTAIN A COOPERATIVE AND OFTEN A COORDINATED APPROACH TO SOLVING PROBLEMS IN EXISTING OR PROSPECTIVE MULTILATERAL FORA DEALING WITH TRADE, FINANCE, DEVELOPMENT, ENERGY (INCLUDING NUCLEAR), COMMODITY AND LAW OF THE SEA ISSUES.

OUR APPROACH TO THESE ISSUES CONSTITUTES BOTH THE BEST
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OPPORTUNITIES AND GREATEST RISKS FOR OUR RELATIONS WITH THE EC OVER THE NEXT FEW YEARS. OFTEN THERE IS A BROAD CONSENSUS ON OBJECTIVES BETWEEN THE US AND EC, ALTHOUGH WE MAY AND DO DIFFER ON TACTICS ON SOME ISSUES, AND ON OTHERS WE MAY ENCOUNTER DIFFICULTIES ARISING FROM THE INABILITY OF THE EC MEMBER STATES THEMSELVES TO AGREE ON ANYTHING MORE THAN A VAGUE CONSENSUS. BY OUR OWN ACTIONS, WE CAN EITHER STIMULATE GREATER CONSENSUS OR BOLSTER CENTRIFUGAL PRESSURES. NOWHERE IS THIS LIKELY TO BE MORE TRUE THAN IN THE CONDUCT OF THE NUCLEAR POLICY DIALOGUE AND THE FOLLOW-UP TO THE CIEC. WHILE WE MUST CERTAINLY DEAL WITH THE WORLD AS IT IS AND WITH POWER WHERE IT EXISTS, WE MUST WARN THAT THE CONSEQUENCE OF REPEATED RECOURSE TO KEY MEMBER STATES AT THE EXPENSE OF THE EC INSTITUTIONS CAN BE TENSION IN OUR RELATIONS WITH THE EC AS A WHOLE (AN "ISSUE" DEALT WITH AT GREATER LENGTH IN SEPTTEL).

IN THIS CONTEXT, ENERGY DESERVES SPECIAL MENTION. THE EC MEMBER STATES HAVE A SENSE OF HELPLESSNESS BECAUSE OF THEIR OVERWHELMING DEPENDENCY ON IMPORTED OIL. MOST EUROPEANS ACCEPT AND STRONGLY SUPPORT THE IEA. BUT UNLESS THE US HAS AN EFFECTIVE DOMESTIC ENERGY CONSERVATION AND DEVELOPMENT PROGRAM, OIL PRICE AND SUPPLY ACCESS PRESSURES WILL CUMULATE ON EUROPE. IN PART, BECAUSE OF THIS, THE COMMUNITY ALSO FEELS A NEED TO LOOK FOR WAYS TO HELP OUT ON A MIDDLE EAST POLITICAL SETTLEMENT. WHILE THIS NEED OCCASIONALLY CAUSES PROBLEMS FOR US (E.G., IN EURO-ARAB DIALOGUE), IT IS IMPORTANT THAT WE UNDERSTAND THE INTERDEPENDENT RELATIONSHIPS THAT EXIST BETWEEN ENERGY AND THE EUROPEAN ROLE IN THE MIDDLE EAST. THUS, EFFECTIVE US AND EC ENERGY POLICIES WHICH HELP REDUCE THIS DEPENDENCE ARE OF CONSIDERABLE POLITICAL SIGNIFICANCE. A COORDINATED EC ENERGY POLICY CAN HELP US MEET IMPORTANT US INTERNATIONAL OBJECTIVES IN TWO WAYS: 1) SINCE FRANCE IS NOT A MEMBER OF THE IEA, THE EC

FRAMEWORK IS A WAY OF TYING THE FRENCH INTO INTERNATIONAL COOPERATIVE PROGRAMS; 2) THE EC HAS LEGISLATIVE POWERS WHICH MAKE ITS AGREED ACTIONS MORE BINDING THAN IEA RECOMMENDATIONS. CONFIDENTIAL

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BOTH FACTORS HIGHLIGHT THE IMPORTANCE TO US OF EC SUCCESS IN THIS AREA.

FINALLY, IN THE TRADE NEGOTIATIONS, THERE ARE SEVERAL FUNDAMENTALLY DIFFERENCE POSITIONS BETWEEN THE US AND THE COMMUNITY. HERE THE NEED FOR PROGRESS ON THE SUBSTANCE OF ISSUES IS GREAT AND IMMEDIATE IF THE WORLD IS NOT TO RELAPSE INTO DESTRUCTIVE PROTECTIONISM.

3. POLITICAL CONSULTATIONS WITH THE NINE

OUR OBJECTIVE IS TO DEEPEN AND EXPAND OUR DIALOGUE WITH THE COMMUNITY ON FOREIGN POLICY ISSUES, SO THAT THE EC-NINE WILL HAVE FULL BENEFIT OF US VIEWS WHEN THEY CONSULT TOGETHER FOR THE PURPOSE OF ACHIEVING COMPATIBLE POSITIONS ON CURRENT INTERNATIONAL PROBLEMS.

EC-NINE POLITICAL COOPERATION REPRESENTS AT LEAST PARTIAL FULFILLMENT OF ONE ESSENTIAL REASON FOR US SUPPORT FOR EUROPEAN UNITY, NAMELY THAT AN INTEGRATED EUROPE WOULD HAVE THE CAPACITY TO EXERT INCREASING INFLUENCE IN THE SEARCH FOR CONSTRUCTIVE SOLUTIONS TO WORLD PROBLEMS. THE ISSUE IS NO LONGER ONE OF CHANNELS -- WE HAVE THEM -- BUT WHAT WE PUT INTO THEM. ON THIS SCORE THERE ARE TWO PROBLEM AREAS: 1) THE QUALITY AND CANDOR OF OUR INPUT -- A CORRECTIBLE FACTOR ON WHICH IMPROVEMENT IS UNDER WAY; AND 2) FRENCH INHIBITIONS -- WHICH SOMETIMES IMPOSE LIMITS ON HOW FAR THE EC PRESIDENCY CAN GO IN PRESENTING OUR CASE (NOTE CURRENT PROBLEMS OF UK PRESIDENCY) AND ON THE FORA IN WHICH OUR CONSULTATIONS TAKE PLACE (FRENCH OPPOSITION TO ENSEMBLE MEETING BETWEEN NINE POLITICAL DIRECTORS AND WASHINGTON OFFICIALS). THE DIALOGUE IS GOING WELL WITH THE UK PRESIDENCY. IT WILL BE IMPORTANT TO SUSTAIN THE QUALITY AT SOMETHING CLOSE TO THAT LEVEL WHEN THE PRESIDENCY MOVES LATER TO OTHER COUNTRIES.

AS OUR DIALOGUE DEVELOPS, WE SHOULD BE AWARE OF POSSIBLE CONFIDENTIAL

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OPPORTUNITIES TO USE THE EC TO ADVANCE OTHER US FOREIGN POLICY OBJECTIVES IN AREAS WHERE THE EC AS SUCH HAS BEGUN TO DEVELOP A POLICY WITH SUBSTANTIAL POLITICAL CONTENT.

THE EC IS NOW ENGAGED IN ITS OWN DIALOGUE WITH CEMA OVER THE NATURE OF FUTURE RELATIONSHIPS BETWEEN THE TWO PARTIES. ALTHOUGH WE CANNOT YET SEE WHERE THIS WILL COME OUT, RECOGNITION OF THE EC BY THE SOVIETS AND EASTERN EUROPEAN COUNTRIES IS A BASIC FACTOR, AND IT IS FAIRLY CLEAR THAT CEMA, NOT THE EC, IS THE DEMANDEUR. IN A SIMILAR SENSE, THE MATTER OF FISHING IN EC WATERS HAS BROUGHT THE SOVIETS, AS WELL AS THE EAST GERMANS AND THE POLES, TO BRUSSELS TO NEGOTIATE WITH THE COMMUNITY. WHILE WE CANNOT YET PREDICT THAT THESE NEGOTIATIONS WILL SUCCEED, EVEN THE FACT THAT THEY ARE UNDERWAY IS A SIGNIFICANT EVENT IN CURRENT EUROPEAN POLITICAL AFFAIRS. WITH REGARD TO THE PRC, THE CHINESE PRO-EUROPEAN STANCE HAS BEEN CLEAR FOR SOME TIME NOW, AND WITHIN THE PAST MONTH THERE HAS BEEN AN ACCELERATION IN THE PACE OF PRC/EC NEGOTIATIONS ON A TRADE AGREEMENT. HERE TOO, THE POTENTIAL ROLE OF THE COMMUNITY IN MATTERS OF GLOBAL STRATEGIC IMPORTANCE TO THE US SHOULD BE KEPT IN MIND. FINALLY, AS THE TITO ERA MOVES TO A CLOSE, THE COMMUNITY HAS BEEN ALERT TO YUGOSLAVIA'S INTEREST IN STRENGTHENING RELATIONS IN THE WEST AND IS NOW ENGAGED IN AN EFFORT TO WORK OUT A NEW FRAMEWORK FOR COOPERATION WITH BELGRADE. THIS EFFORT ALSO SERVES US INTERESTS IN THE CONTINUED STABILITY AND SECURITY OF THIS KEY COUNTRY ON NATO'S SOUTHERN FLANK.

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ACTION EUR-12

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FM USMISSION EC BRUSSELS
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USMISSION GENEVA
MTN DEL GENEVA
USNATO BRUSSELS
AMEMBASSY ATHENS
AMEMBASSY LISBON
AMEMBASSY MADRID
SHAPE

C O N F I D E N T I A L SECTION 05 OF 05 EC BRUSSELS 03175

SHAPE FOR POLAD

4. EC ROLE IN THE MEDITERRANEAN AND ACP STATES.

OUR OBJECTIVE IS TO ENCOURAGE EC EFFORTS TO PLAY A CONSTRUCTIVE ROLE IN PROMOTING ECONOMIC DEVELOPMENT, POLITICAL STABILITY AND SECURITY, PARTICULARLY WITHIN THE WESTERN EUROPEAN/MEDITERRANEAN REGION AND AMONG THE VARIOUS ASSOCIATED AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES AND TO ENCOURAGE EMERGING EC AID PROGRAMS TO NON-ASSOCIATED COUNTRIES.

BY AND LARGE, WE BELIEVE THE EC NINE PLAY A CONSTRUCTIVE ROLE IN THESE SENSITIVE AREAS. THIS ROLE CONTINUES TO MERIT OUR SUPPORT. THE COMMUNITY HAS AT ITS DISPOSAL A VARIETY OF INSTRUMENTS WHICH CONTRIBUTE TO STABILITY: WITHIN THE CONFIDENTIAL

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DEVELOPING WORLD, THE LOME CONVENTION PROVIDES AID AND TECHNICAL ASSISTANCE TO THE ASSOCIATED STATES; SIMILAR TIES OPERATE IN SEVEN MID-EAST COUNTRIES; IN THE NORTHERN MEDITERRANEAN, THE EC'S RESOURCES ARE TRADE AGREEMENTS, FINANCIAL AID, AND ULTIMATELY MEMBERSHIP IN THE COMMUNITY ITSELF (ALL THREE OF WHICH THE EC HAS BEEN LINKING IN RECENT YEARS WITH STABILITY AND DEVELOPMENT OF A PLURALISTIC DEMOCRATIC SOCIETY). IN ADDITION, THE EC NINE THROUGH THEIR POLITICAL COOPERATION, HAVE SHOWN A STRONG DISPOSITION TO PLAY A ROLE IN HELPING SOLVE INTRA-REGIONAL DISPUTES (CYPRUS). INTO WHAT IS ESSENTIALLY A POSITIVE PICTURE, WE NEED TO ENTER THREE CAUTIONS: 1) THE ENTRY OF GREECE INTO THE COMMUNITY IS LIKELY TO VITIATE THE EFFECTIVENESS OF THE EC ROLE ON THE AGEAN AND CYPRUS; 2) ACCESSION OF GREECE, SPAIN, AND PORTUGAL COULD SLOW DOWN OR COMPLICATE THE COMMUNITY'S DECISION-MAKING PROCESS IN A WAY THAT WILL DIRECTLY AFFECT US/EC RELATIONS, AND 3) WE WILL NEED TO BE ATTENTIVE TO HEADING OFF EC DECISIONS TAKEN DURING THE ENLARGEMENT OR OTHER NEGOTIATIONS WITH THESE COUNTRIES WHICH THREATEN US ECONOMIC INTERESTS.

5. THE EUROPEAN UNIFICATION PROCESS.

AS INDICATED ABOVE, THIS MISSION BELIEVES THAT EUROPEAN UNITY CONTINUES TO ADVANCE THE BASIC US POLICY INTERESTS WHICH JUSTIFIED OUR SUPPORT THREE DECADES AGO -- EVEN IN THE ABSENCE OF DRAMATIC INSTITUTIONAL PROGRESS TOWARD UNITY. WHILE THE INTEGRATION PROCESS HAS FALLEN SHORT OF PRODUCING THE POLITICAL UNION ITS FOUNDERS HOPED FOR, IT REMAINS A MAJOR FORCE IN THE WORLD. IN FACT, THE LACK OF A DRAMATIC BREAK-

THROUGH TOWARD UNITY SOMETIMES OBSCURES BOTH THE FACT THAT THE
EUROPEANS REMAIN SENSITIVE AND PROTECTIVE ABOUT THEIR
"IDENTITY" AND THAT THE UNDERLYING PUBLIC AND POLITICAL SUPPORT
FOR EUROPEAN UNIFICATION CONSTANTLY PRODUCES NEW STEPS FORWARD.
PROGRESS MAY AT TIMES SEEM TO BE GLACIAL IN SPEED, BUT IT IS
ALSO IRRESISTIBLE.
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THE GENERAL STATE OF RELATIONS BETWEEN THE US AND EC
IS HEALTHY. THERE HAS BEEN A WARMING TREND SINCE LATE 1973-EARLY
1974 WHEN OUR RELATIONSHIPS BECAME MIRED IN AN ALMOST THEOLOGICAL
CONTROVERSY OVER THE MEANING OF TRANS-ATLANTIC INTERDEPENDENCE,
AND IN THE INSISTENCE OF SOME EUROPEANS ON THE PREEMINENCE OF
EUROPEAN "IDENTITY" OVER CLOSE CONSULTATIVE RELATIONSHIPS BETWEEN
THE EC AND THE US. WITH THE PASSAGE OF TIME WE HAVE SUCCEEDED,
TO A CONSIDERABLE DEGREE, IN LAYING TO REST A WIDESPREAD VIEW THAT
US POLICY HAD EVOLVED FROM SUPPORT TO OPPOSITION TO EUROPEAN
UNITY. (THE SUSPICION OF A US DIVIDE-AND-CONQUER POLICY CAN,
HOWEVER, BE EASILY REVIVED AND WOULD BE A POWERFUL DIVISIVE IRRITANT
BETWEEN THE US AND EUROPE.) NO DOUBT SOME EUROPEANS REMAIN DUBIOUS,
EVEN THOUGH THE NEW ADMINISTRATION HAS MADE ITS SUPPORT
ABUNDANTLY CLEAR. AS WE PURSUE INITIATIVES UNDER THE NEW
ADMINISTRATION, I URGE THAT WE BEAR IN MIND THAT ATTACHMENT
TO THE EUROPEAN CONCEPT REMAINS STRONG, THAT EVIDENCE THROUGH
OUR POLICIES OF OUR SUPPORT IS IMPORTANT, AND THAT PARTICULARLY
WHEN OUR PERCEPTIONS OF ISSUES DIFFER, WE MAKE EVERY EFFORT TO
ENGAGE THE COMMUNITY AS A FULL PARTNER IN THE CONSULTATIVE
PROCESS. HINTON

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